TRAPPER RESOURCES LTD.

1987

ANNUAL REPORT

1510, 505 Third Street S.W., Calgary, Alberta T2P 3E6 Telephone: (403) 233-2036

Annual Meeting

The Annual Meeting of Trapper Resources Ltd. will be held on December 11, 1987 at 10:00 a.m. (Calgary time) at the Company's offices.

Corporate Highlights

	12 Month Period Ended June 30 1987	12 Month Period Ended June 30 1986
Financial		
Revenue	$ 455,348	$ 1,022,332
Net Earnings (Loss)	(2,430,381)	(2,602,811)
Per Share	(.75)	(.80)
Cash Flow	(73,053)	199,401
Per Share	(.08)	.01
Capital Expenditures	192,450	1,161,401
Working Capital	(277,719)	(110,167)
Assets	2,890,939	5,601,623
Bank Debt	700,000	1,000,000
Operations		
Net Crude Oil Production (BBL)	17,278	23,010
Net Natural Gas Production (MCF)	45,739	136,045
Net Proven Crude Oil Reserves (BBL)	123,340	213,094
Net Proven Natural Gas Reserves (MMCF)	1,576	1,870
Share Information		
Common Shares Issued	3,457,841	3,457,841
Preferred Shares Issued	172,500	172,500
Shareholders' Equity	1,948,649	4,379,030

Corporate Information

Head Office
Suite 1510
505 Third Street S.W.
Calgary, Alberta
T2P 3E6
(403) 233-2036

Directors

Kenneth D. Cairns	Cochrane, Alberta
Hugh T. Cameron	Toronto, Ontario
Timothy L. Campbell	Calgary, Alberta
John L. Gairdner	Toronto, Ontario
Derek W. Taylor	Montreal, Quebec
Robert A. Wall	Calgary, Alberta

Officers
Timothy L. Campbell, President
Herbert H. Robertson, Secretary
Earl T. Young, Assistant Secretary

Subsidiary
Trapper Resources Inc.

Banker
National Bank of Canada

Registrar and Transfer Agent
Canada Trust Company Limited

Legal Counsel
Bennett Jones

Auditors
Collins Barrow

Stock Symbol and Listing
TPR: Alberta Stock Exchange

PRESIDENT'S REPORT

Operating and financial results for the fiscal year ended June 30, 1987 contrasted sharply from the previous year due to market prices, a decrease in oil and gas production, and a general decrease in Company activity. Gross revenues for the current period totalled \$455,348 versus \$1,022,332 for fiscal year 1986. Cash flow from operations was negative \$73,053 or (\$0.08) per share compared to \$199,401 or \$0.01 per share attained the previous year. The Company recorded a loss of \$2,430,381 or \$0.75 per share in the current year compared to a loss of \$2,602,811 or \$0.80 per share in the previous year. The current year loss included the write down in value of oil and gas properties amounting to \$1,345,000 and the loss on disposal of oil and gas properties in the United States of \$737,469.

Working capital at June 30, 1987 was negative \$277,719 compared to the previous year of negative \$110,167. The bank loan was decreased by \$300,000, through the sale of assets, to \$700,000.

Net crude oil production was 17,278 barrels (47 BOPD) versus 23,010 barrels (63 BOPD) in the previous year, representing a 25% decrease. Most of this decrease was due to the sale of the Bivins, Texas property. Net natural gas production was 45,739 MCF (125 MCFD) compared to last year's production of 136,045 MCF (373 MCFD) or a decrease of 66%. The sale of the Bivins property, gas production problems at Lathom, and the general market selling price have virtually shut down our gas production since deregulation on November 1, 1986.

During the year under review the Company restricted all capital expenditures in an effort to minimize overall expenses. Trapper staff also evaluated all existing non-producing properties and attempted to farmout those parcels that were of higher risk or were due to expire. Over the year Trapper completed four farmouts resulting in one oil well (non-unit) at Kisbey, Saskatchewan, one oil well at Taber, Alberta, and two gas wells at Drumheller, Alberta.

In November the Company sold its interest in the Bivins, Texas oil field. The sale reflected our corporate objective of restricting operations to Western Canada and reducing field operating expenses. Proceeds from the disposition were used to reduce bank debt. We are currently negotiating with potential buyers for our Bear Lake, Pennsylvania and Arkwright, New York gas wells. These properties have become uneconomic due to marginal production and high operating costs.

At Mitsue, Alberta the pooling arrangement with Norwich has been terminated due to water problems with our 2-20 oil well. We are still proceeding with a waterflood arrangement with Chevron, however, our forecasted oil production will be adjusted downward as a result of a higher water-cut factor.

The unitization scheme at Skiff, Alberta is proceeding smoothly with final agreement anticipated to be completed by January of next year. Two development wells are planned for the unit and should be drilled in early 1988.

Our Lathom and Windfall gas properties, both in Alberta, have been shut-in for most of the last year due to market conditions. We expect production to resume later this year as market demands increase.

Over the past year we have experienced significant reductions in both general and administrative and operating expense. Combined with our active high-grade and farmout policy, Trapper has been able to weather the financial storm. However, the Company is still struggling to achieve fiscal stability.

The management of Trapper are actively investigating various scenarios that would secure Trapper's future and ultimately reflect positive value for the shareholders.

During the year Mr. Garth Armstrong resigned as Director of the Company. The Board of Directors wishes to thank Mr. Armstrong for his dedication and contribution to Trapper.

Submitted on behalf of the Board of Directors.

T.L. Campbell
President

TRAPPER RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1987

Collins
Barrow
Chartered Accountants

800 Gulf Canada Square
401-9th Avenue S.W.
Calgary, Canada T2P 3C5
(403) 298 1500
Telex 03-821138

AUDITORS' REPORT

To the Shareholders
Trapper Resources Ltd.

We have examined the consolidated balance sheet of Trapper Resources Ltd. as at June 30, 1987 and the consolidated statements of loss, deficit and cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at June 30, 1987 and the results of its operations and cash flow for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Collins Barrow

CHARTERED ACCOUNTANTS

Calgary, Canada
September 4, 1987

TRAPPER RESOURCES LTD.

CONSOLIDATED BALANCE SHEET

JUNE 30, 1987

ASSETS	1987	1986
Current assets		
Cash	$ 13,169	$ 10,014
Accounts receivable	95,423	196,569
Marketable securities	16,750	16,750
Petroleum incentive grants receivable	2,229	72,093
	127,571	295,426
Property and equipment (note 2)	2,763,368	5,306,197
	$ 2,890,939	$ 5,601,623

LIABILITIES	1987	1986
Current liabilities		
Bank overdraft	$ 63,790	$ -
Accounts payable and accrued liabilities	178,500	222,593
Current portion of bank loan	163,000	183,000
	405,290	405,593
Bank loan (note 3)	700,000	1,000,000
Less: Current portion	163,000	183,000
	537,000	817,000
SHAREHOLDERS' EQUITY		
Share capital (note 4)	7,457,701	7,457,701
Deficit	(5,509,052)	(3,078,671)
	1,948,649	4,379,030
	$ 2,890,939	$ 5,601,623

Approved on behalf of the Board,

____________________, Director

____________________, Director

TRAPPER RESOURCES LTD.

CONSOLIDATED STATEMENT OF LOSS

YEAR ENDED JUNE 30, 1987

	1987	1986
Revenue		
Oil and gas sales	$ 417,365	$ 946,908
Alberta royalty tax credit	24,611	54,138
Other	13,372	21,286
	455,348	1,022,332
Expenses		
Production	167,949	346,760
General and administrative	274,092	313,090
Interest on bank loan	86,360	120,416
Depletion	242,300	582,000
Depreciation	32,559	72,254
	803,260	1,434,520
Loss before the following	347,912	412,188
Loss on disposition of petroleum and natural gas properties in the U.S.	737,469	-
Write-down of marketable securities to estimated net realizable value	-	42,665
Provision for impairment in value of petroleum and natural gas properties (note 1(b))	1,345,000	2,300,000
Loss before income taxes	2,430,381	2,754,853
Deferred income taxes (recovery)	-	(152,042)
Net loss	$ 2,430,381	$ 2,602,811
Loss per common share [note 1(g)]	$ (0.75)	$ (0.80)

TRAPPER RESOURCES LTD.

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED JUNE 30, 1987

	1987	1986
Deficit, beginning of year	$ 3,078,671	$ 475,860
Net loss	2,430,381	2,602,811
Deficit, end of year	$ 5,509,052	$ 3,078,671

TRAPPER RESOURCES LTD.

CONSOLIDATED STATEMENT OF CASH FLOW

JUNE 30, 1987

	1987	1986
Operating activities		
Oil and gas receipts, net	$ 334,164	$ 689,847
Alberta royalty tax credit receipts	29,929	63,401
Other receipts	13,372	29,454
General and administrative payments	(263,711)	(358,640)
Interest payments	(86,360)	(120,416)
	27,394	303,646
Financing activities		
Repayment of bank loan, net	(300,000)	(50,000)
Investing activities		
Acquisition of property and equipment	(192,450)	$ (1,161,401)
Proceeds on disposal of property and equipment	331,637	568,071
Acquisition of marketable securities	-	(59,415)
Petroleum incentive grants received	72,784	188,300
Collection of note receivable	-	250,000
	211,971	(214,445)
Cash inflow (outflow)	(60,635)	39,201
Cash and cash equivalents (deficiency), beginning of year	10,014	(29,187)
Cash and cash equivalents (deficiency), end of year	$ (50,621)	$ 10,014
Cash and cash equivalents (deficiency), are comprised of:		
Cash	$ 13,169	$ 10,014
Bank overdraft	(63,790)	-
	$ (50,621)	$ 10,014

TRAPPER RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1987

1. Summary of significant accounting policies

a) Principles of consolidation

The financial statements include the accounts of the company and its wholly-owned subsidiary company.

b) Petroleum and natural gas properties

The company follows the full cost method of accounting whereby all costs related to the exploration for and the development of oil and gas reserves are initially capitalized and accumulated in country-by-country cost centres (Canada and the United States). Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells together with overhead directly related to exploration and development activities. Proceeds on minor property sales are credited to the net book value of the property and equipment. Gains or losses on major property sales are recognized in the statement of loss where the sale results in a material change in the rate of depletion.

Costs capitalized in the cost centres are depleted using the composite unit-of-production method which is based on estimated proven oil and gas reserves as determined by independent and company engineers. For purposes of the calculation, gas was converted to oil on a 6 MCF to 1 BBL equivalent basis.

In applying the full cost method, the company performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation for each cost centre from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, and after deducting estimated future general and administrative expenses, financing costs and income taxes for each cost centre. In calculating the above cost centre ceiling tests $22 Canadian per barrel of oil, being the current oil price at the fiscal year-end, was used as the estimated future price of oil, and $1.38 Canadian per thousand cubic feet of gas, being the current gas price at the fiscal year-end, was used as the estimated future price of gas.

c) Joint venture accounting

Substantially all of the company's petroleum and natural gas exploration and production activities are conducted jointly with others and accordingly these financial statements reflect only the company's proportionate interest in such activities.

TRAPPER RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1987

1. Summary of significant accounting policies (cont'd)

d) Depreciation

Lease and well equipment is depreciated on the composite unit-of-production method. Other equipment is being depreciated on the declining balance method at 20 percent per annum.

e) Marketable securities

Marketable securities have been recorded at the lower of cost and estimated net realizable value.

f) Translation of foreign currencies

The accounts of the foreign subsidiary have been translated to Canadian dollars on the following basis: monetary assets and monetary liabilities at the rate of exchange in effect at the year-end; other assets and liabilities at historic rates of exchange except where such items are carried at current value, in which case they are translated at the rate of exchange in effect at the year-end. The items in the statement of loss are translated at the average rate of exchange prevailing during the year except for depletion and depreciation, which are translated at the same rates as used for the related assets.

g) Loss per common share

Basic loss per common share has been computed by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the year. The loss attributable to common shareholders has been computed after deduction from the reported net earnings of prescribed dividends in the amount of $163,875 on First Preferred Shares, Series A. The conversion of Preferred Shares and employee stock options would not be dilutive.

h) Accounting for changing prices

These financial statements reflect neither the impact of specific price changes nor changes in general price levels.

2. Property and equipment

	1987			1986
	Cost	Accumulated Depletion & Depreciation	Net	Net
Petroleum and natural gas properties including exploration and development thereon	$ 7,301,594	$ 4,838,553	$ 2,463,041	$ 4,726,675
Lease and well equipment	788,713	508,023	280,690	557,426
Other	48,744	29,107	19,637	22,096
	$ 8,139,051	$ 5,375,683	$ 2,763,368	$ 5,306,197

2. Property and equipment (Cont'd)

During the year, the company capitalized general and administrative expenses in the amount of $117,605 (1986 - $145,814) of total general and administrative expenses incurred of $391,697 (1986 - $458,904).

3. Bank loan

The bank loan is payable on demand and bears interest at three quarters of one percent over the prime lending rate of a Canadian chartered bank. Effective August 31, 1987 monthly principal repayments of $10,000 are required from September 1, 1987 to November 1, 1987 and $19,000 thereafter.

The loan is secured by certain oil and gas properties, a general assignment of book debts and a floating charge debenture in the amount of $1,000,000 on all assets of the company.

The estimated principal repayments on the bank loan are as follows:

1988	163,000
1989	228,000
1990	228,000
1991	81,000
	$ 700,000

4. Share capital

Authorized

1,000,000 First Preferred Shares, without nominal or par value
20,000,000 Common Shares, without nominal or par value

Issued

	1987 and 1986	
	Number of Shares	Stated Value
First Preferred Shares, Series A		
Issued for cash	172,500	$ 1,725,000
Less: Share issue costs	-	86,250
	172,500	1,638,750
Common shares	3,457,841	5,818,951
		$ 7,457,701

4. Share capital (cont'd)

The First Preferred Shares, Series A, carry a fixed cumulative annual dividend of $0.95 per share payable quarterly. These shares may be redeemed at the option of the company, at a price of $10.40 up to the close of business on February 15, 1988, decreasing by $.10 per year up to the close of business on February 15, 1991 and thereafter at $10.00 per share. The First Preferred Shares, Series A, may be converted by the holder into Common Shares of the Company on the basis of 2.50 Common Shares for each First Preferred Share, Series A up to the close of business on March 15, 1991.

As at June 30, 1987, dividends in arrears on Preferred Shares amounted to $778,405.

Of the 360,800 Common Shares committed for issue pursuant to the amalgamation with Pascar Development Corporation Ltd. during the fiscal year ended July 31, 1983, 145,381 shares had been exchanged for Pascar shares as at June 30, 1987. 215,419 common shares remain in trust with the transfer agent pending exchange with the remaining outstanding Pascar shares.

As at June 30, 1987, the Company has reserved 270,000 common shares for issue under stock option plans. Stock options outstanding under these plans are as follows:

	Number of Shares	Exercise Price	Term
Employee stock options	150,000	$ 0.20	Expires January 31, 1989
Director stock options	120,000	$ 0.20	Expires September 30, 1989

5. Segmented information

The Company, which is engaged in only one industry, exploration for and development of oil and gas reserves, operates primarily in two geographic areas, Canada and the United States. The following is an analysis of certain financial information by geographic area:

	Canada	United States	Total
	1987		
Oil and gas sales	$ 339,266	$ 78,099	$ 417,365
Operating profit (including Alberta royalty tax credits)	$ 245,415	$ 28,612	$ 274,027

5. Segmented information (cont'd)

	Canada	United States	Total
		1987	
General and administrative expense			274,092
Interest expense on bank loan			86,360
Other income			(13,372)
Depletion			242,300
Depreciation			32,559
			621,939
Loss on disposition of petroleum and natural gas properties			737,469
Provision for impairment in value of petroleum and natural gas properties			1,345,000
			2,704,408
Loss			$ (2,430,381)
Property and equipment	$ 2,620,805	$ 142,563	$ 2,763,368
Other assets	86,359	41,212	127,571
Total identifiable assets	$ 2,707,164	$ 183,775	$ 2,890,939
		1986	
Oil and gas sales	$ 628,176	$ 318,732	$ 946,908
Operating profit (including Alberta royalty tax credits)	$ 503,814	$ 150,472	$ 654,286
General and administrative expense			313,090
Interest expense on bank loan			120,416
Other income			(21,286)
Depletion			582,000
Depreciation			72,254
			1,066,474
Write-down of marketable securities to net realizable value			42,665
Provision for impairment in value of petroleum and natural gas properties			2,300,000
			3,409,139
Loss before income taxes			$ (2,754,853)
Property and equipment	3,426,136	1,880,061	5,306,197
Other assets	214,728	80,698	295,426
Total identifiable assets	$ 3,640,864	$ 1,960,759	$ 5,601,623

TRAPPER RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1987

6. Remuneration of directors and officers

The aggregate direct and indirect remuneration paid during the year by the company to the directors and senior officers (including the five highest paid employees) totalled $161,985 (1986 - $191,703).

7. Tax benefits available

The financial statements do not reflect potential income tax reductions available through the application of losses carried forward against future earnings otherwise subject to income taxes. These losses expire as follows:

	Year Incurred	Year of Expiry	Amount
United States	1980	1995	U.S. $ 1,191,847
	1981	1996	788,164
	1982	1997	161,410
	1983	1998	2,213
	1984	1999	129,868
	1985	2000	33,065
	1986	2001	21,661
	1987	2002	303,717
			U.S. $ 2,631,945
Canada	1987	1994	CDN. $ 60,313